Office of the Secretary
Service Date
February 4, 2005

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF IDAHO POWER COMPANY FOR AUTHORITY TO IMPLEMENT A RESIDENTIAL AIR CONDITIONER CYCLING PROGRAM.

CASE NO. IPC-E-04-27

ORDER NO. 29702

On November 15, 2004, Idaho Power filed an Application for authority to implement an expanded residential Air Conditioner Cycling Program ("AC Program" or "Program"). Idaho Power sought authority to modify and expand its voluntary two-year "pilot" AC Cycling Program that expired in October 2004. The Company requested that its Application be processed under Modified Procedure.

On December 20, 2004, the Commission issued its Notice requesting comments on the Company's Application. Two members of the public and the Commission Staff filed comments in response to the Commission's Notice. As set out in greater detail below, the Commission authorizes the Company to implement the AC Program.

BACKGROUND

In March 2003, the Commission authorized Idaho Power to implement the pilot AC Program for residential customers in Boise and Meridian during the summer months. The purpose of the pilot program was for Idaho Power to evaluate the costs and benefits of reducing summer peak loads by cycling residential air conditioners. Reducing summer peaking loads could potentially reduce Idaho Power's overall capacity costs and could result in savings to customers.

Idaho Power experimented with two methods of controlling AC cycling: installing programmable thermostats and installing direct control equipment. To encourage participation in the pilot program, the Company provided $10 monthly incentives and, in some cases, the programmable thermostats. Based upon the results of the pilot program, the Company now desires to increase the number of participants and to make the Program permanent with some modifications.

THE CURRENT APPLICATION

In its Application, the Company proposed to expand the reach of the voluntary program to all residential customers residing in Ada or Canyon Counties and in the Emmett area. Emmett was included because the Company has installed new meters with advanced meter reading (AMR) capabilities. By including Emmett in the Program, the Company will be able to evaluate economies of scale that may occur by coupling the AC Program with the AMR capabilities. The Program would allow the Company to cycle air conditioners during the summer months of June, July and August.

Eligibility to participate in the Program would be determined by several factors including: a residential customer's energy usage, residential location, size of home, and the presence of a fully functional central air conditioner installed in compliance with the National Electric Code. Residential customers who rent or lease their homes must provide the Company written proof of the owner's permission to participate in the Program. Participating customers will receive a monetary incentive of $7.00 per month as a credit on their monthly bills beginning with July and ending with their September bills. To receive the incentive payment, eligible customers must begin participating in the Program no later than the 20th day of the month in order to receive an incentive payment for that initial month.

The Company's research indicates that the Treasure Valley experiences an average of about 20 days each summer when the ambient air temperature reaches at least 95 degrees. At an ambient air temperature of at least 95 degrees, the average load reduction during a cycling event was 1.11 kW per participant. A cycling event may be up to four hours per day for any weekday during the three-month season. A cycling event may occur over a continuous four-hour period or may be segmented throughout the day at the Company's discretion to optimize available resources. Cycling events may total up to 40 hours each month and will not exceed a total of 120 hours during the three-month season.

Based upon the pilot program, the Company proposed to use direct AC control devices to control the AC units. These devices will be installed by the Company. Each residential participant will be permitted to temporarily "opt out" of the Program one day per month after providing Idaho Power with advanced notice. Customers would be free to terminate the Program at any time without penalty.

The Company anticipates that there will be 40,000 participants in the AC Program within five years. During the first five years, the Company estimates that the annual Program costs will average approximately $2.2 million. Once fully implemented, the Company estimates that the annual Program costs will be approximately $1.5 million per year. The higher initial costs are attributable to the Company's purchase and installation of the direct load control devices. The Company requests that it be permitted to recover the Program costs from the Energy Efficiency Rider (Schedule 91).

The Company also noted that its Energy Efficiency Advisory Group generally supports implementation of the AC Program. The Company asserts that the AC Program will be cost-effective. In particular, the Company performed a benefit-cost analysis that showed a positive benefit-cost ratio of 1.42 over a 30-year period, based on the benefit of avoiding costs associated with a simple-cycle combustion turbine.

THE COMMENTS

In response to the Commission's Notice of Modified Procedure, two members of the public and the Commission Staff submitted comments. One customer supported the Program. The other customer did not oppose the Program but suggested that evaporative cooling (as compared to refrigerated cooling) was a better solution. This latter customer noted that the "real problem" was that customers are not generally interested in conserving electricity until the price of electricity increases.

The Staff recommended that the Commission approve Idaho Power's Application. Staff noted that the Company's evaluation of the pilot program showed that AC cycling results in an average of less than two degrees increase inside participants' homes during the last hour of a cycling event. In addition, Staff noted that most participants' total electric usage during the month stayed the same or declined slightly.

Staff also observed that the Company estimates that 40,000 customers will participate in the Program by 2009. Based on an average load reduction of 1.11 kW per participant when outside temperature is at least 95 degrees, the Staff calculated that 40,000 participants equates to 44.4 MW of peak load reduction. Given the Company's estimate of costs and the level of customer participation, Staff opined that this demand-side program offers a better alternative of shaping or reducing customer load than purchasing a supply-side generation resource.

The Staff maintained that there is a sufficient fund balance in the Company's Energy Efficiency account to implement the AC Program. The Staff also noted that the Company has requested that its Energy Efficiency surcharge be increased in Case No. IPC-E-04-29.

DISCUSSION

Based upon our review of the Application and the comments, we authorize the Company to implement the residential AC Program. Successful implementation of the voluntary AC Program during the months of June, July and August will allow Idaho Power to reduce its summer peaking load and to lessen its reliance upon purchasing power or constructing supply-side generation. Although most participants' total electric usage during the three-month season may stay the same or decline slightly, the Staff calculated that 40,000 participants equates to approximately 44 MW of peak load reduction. Under some conditions the potential peak load reduction is even greater.

We note that the Company has calculated a positive cost benefit ratio for the Program and expects it to be cost effective over its 30-year life. The Energy Efficiency Advisory Group also generally supported the Program. Consequently, we find that it is in the public interest for Idaho Power to implement its AC Program.

The Staff maintained that there is a sufficient balance in the Company's Energy Efficiency account to begin implementing the AC Program. We direct the Company to report on the implementation results and cost effectiveness of the AC Program in its annual demand-side management (DSM) report.

ORDER

IT IS HEREBY ORDERED that Idaho Power Company's Application to implement its revised residential AC Program is granted. The Commission also approves Tariff Schedule 81 that implements the voluntary AC Program.

IT IS FURTHER ORDERED that the Company report on the results and cost effectiveness of its AC Program in its annual DSM Report.

THIS IS A FINAL ORDER. Any person interested in this Order (or in issues finally decided by this Order) or in interlocutory Orders previously issued in this Case No. IPC-E-04-27 may petition for reconsideration within twenty-one (21) days of the service date of this Order with regard to any matter decided in this Order or in interlocutory Orders previously issued in this Case No. IPC-E-04-27. Within seven (7) days after any person has petitioned for

reconsideration, any other person may cross-petition for reconsideration. *See Idaho Code* § 61-626.

DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 4th day of February 2005.

PAUL KJELLANDER, PRESIDENT

MARSHA H. SMITH, COMMISSIONER

DENNIS S. HANSEN, COMMISSIONER

ATTEST:

Jean D. Jewell
Commission Secretary

vld/O:IPCE0427_dh2